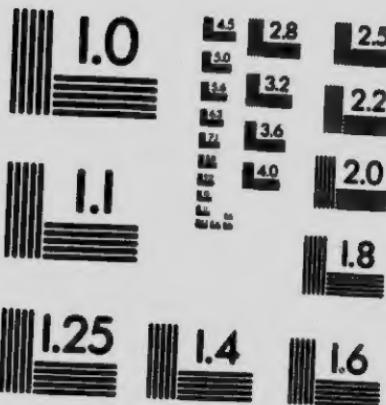


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THE  
HISTORY OF CANADIAN CURRENCY, BANKING  
AND EXCHANGE

FURTHER EXPANSION AND CRISIS

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Bibliothèque du Parlement

CLASSIFICATION

332 -

1903

CANADA

TORONTO  
JOURNAL OF THE CANADIAN BANKERS' ASSOCIATION  
1903

## THE HISTORY OF CANADIAN CURRENCY, BANKING AND EXCHANGE

### VII. FURTHER EXPANSION AND CRISIS\*

In Lower Canada the speculative commercial element being confined very largely to the cities of Quebec and Montreal, there was not that wide-spread demand for banking establishments which characterized the United States and Upper Canada. In the latter this had led to the establishment of several private banks, and the granting of numerous public charters by the Legislature, albeit a tyrannous Home Government prevented the charters from going into operation. One or two attempts, however, were made to increase the banking institutions of Lower Canada, though only one resulted in a permanent establishment.

The Banque du Peuple owed its existence to political rather than to commercial enterprise. The political antagonism between the two races in Lower Canada, which had been steadily developing since the introduction of the Constitutional Act in 1791, had reached an acute stage in the thirties. The

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\*Chief sources:

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racial cleavage was extending from the purely political to the economic, social and professional relations of the people. As the existing banks were almost entirely in the hands of the English element, the common prejudice naturally extended to them. Consequently an effort was made, and with success, to organize a bank which would appeal to the national sentiment of the French Canadians.

The project was first heard of in 1833, when an item, copied from the *Daily Advertiser*, a Lower Canadian paper, appeared in the *Quebec Gazette* of August 12th, stating that arrangements were being made for the immediate establishment of a new bank, *en commandite*, with a capital of £75,000. The bank was to go into operation as soon as £12,000 had been paid in. The French system of a company, *en commandite*, was simply a form of joint stock company. Its special feature was that while the directors, or active partners named in the articles of association, were subject to unlimited liability, the ordinary shareholders were liable to the extent of their subscribed stock only.

Nothing was at first expressly stated with reference to the political affinities of the institution, but it was represented that this new principle of extended responsibility on the part of the directors would have the effect of enlisting the confidence of the French Canadians, who had but little faith in the paper of the existing banks.

The bank did not go into operation at the time, but in 1835 the scheme was fairly well matured, and had, indeed, several projected imitators. The articles of association of the new bank, as issued in printed form, were dated 12th Jan., 1835. There were thirty-six articles, from which we learn that the bank was to be established in Montreal on the principle of *en commandite*, the named partners to be not less than seven or more than fifteen, and the partnership to continue for nine years. Branches might be established both within and without the Province. Directors were to be chosen by the majority of the shareholders, shares to consist of £12 10s each, the total capital to be not less than £100,000, but might be raised to £250,000. An instalment of ten per cent. was to be paid on subscribing, but shareholders might at any time pay into the bank any amount on their stock, and share in the profits in proportion. The bank must not hold real

property beyond what comes to it in the way of security, and only so long as may be necessary to dispose of it. The articles of partnership might be modified or dissolved.

The leading promoters of this new bank were two prominent French Canadians, Messrs. Viger and Dewitt, and the enterprise, as it took shape, was known as the banking establishment of Messrs. Viger, Dewitt & Co. By the middle of April the directors had secured an office near that of the City Bank on St. Francis street.

The bank would no doubt have sought to secure a charter, but, considering the auspices under which it was started and its political affinities, there was no chance of its charter passing the Legislative Council. Yet, without a charter, if it attempted to issue notes of a lower denomination than four dollars, it would find itself in conflict with the currency act of 1830, which prohibited, in the case of banks not incorporated by law, the circulation of notes for smaller sums than one pound currency. The movements of the new banking house were therefore watched with considerable interest.

The second instalment on the stock was called for July 10th, and the bank began business shortly after the middle of the month, under the name of the Banque du Peuple, with Mr. Letourneau as cashier, and Mr. Peltier as teller. The paper of the new bank was soon in circulation. It was then discovered that, in order to evade the law, its paper, though appearing in the shape of ordinary bank notes, really consisted of drafts on Viger, Dewitt & Co., payable on demand and endorsed by G. Peltier, the teller. The wording of these drafts was as follows, in both French and English: "Banque du Peuple, Lower Canada. On demand pay to the order of G. Peltier one dollar, value received. Montreal, 11 Juillet, 1835, E. R. Fabre. A Messrs. Viger, Dewitt & Cie., Montreal." These bills were signed across the face in red ink, Viger, Dewitt & Co., and endorsed G. Peltier. The device was ingenious, and though its legality was doubtful, yet no effort seems to have been made to test the matter in the courts.

The bank was immediately attacked by the English party, on political grounds, and its credit assailed. Yet its paper passed into circulation and was maintained there by the policy of the

chartered banks, which at first refused to accept it on any terms, and thus prevented its being returned upon the bank for redemption. However, like the Bank of Upper Canada, its English rivals soon recognized their mistake, and afterwards freely accepted the paper of the new bank.

The current attitude of the English party towards the institution is fairly represented by an editorial in the *Quebec Gazette* of August 7th, 1835. It is objected that the whole of its note issue depends upon a legal quibble, while the bank itself is the outcome of the fevered appeals of Papineau not to do business with the British element. Its affairs are not made public, nor are they subject to legal supervision as in the case of the other banks. While the others are restricted as to the range of their business, this institution is unlimited. Yet the French Canadians, and Mr. Dewitt in particular, were always clamouring to have the chartered banks more severely restricted, and their affairs more completely exposed to the public. The French Canadians may be entitled to banks of their own, but they should come under the same terms as the others. However, the bank prospered, the French Canadians supported it on national grounds, and it even came to be a mark of patriotism, in many quarters, to refuse to take Montreal and Quebec bank notes. However much the English and French factions and their papers quarrelled over the merits and success of their respective banks, even to the extent of giving each other the lie direct, the banks themselves seem to have lived quite peaceably together; much more so, indeed, than the chartered and joint-stock banks of Upper Canada. When the crisis arrived, we find the Banque du Peuple associated with the other Lower Canadian banks in the various measures which were adopted to weather the storm.

At the same time that the articles of association of the Banque du Peuple were published, there appeared the articles of association of another bank to be established at Chambly. Of this institution the Hon. Mr. Debartzch was the leading promoter. It also was to be established on the *en commandite* principle, but was to be a mortgage bank, with a view to assisting the agricultural interests. The mortgages were to be deposited with the bank and the notes to be issued on their security. But, to facilitate this, the mortgages were again to be pledged to raise

£25,000 in cash, in the United States, upon which it was expected that notes to the extent of £75,000 could be issued. There were other subtle features in the scheme, by which, apparently, the bank and its clients were to grow rich at each other's expense; but the project came to naught.

In this connection may be mentioned a couple of rather ingenious institutions in Upper Canada, actuated by the same benevolent purpose of assisting the farmers by lending money on the security of their lands. The idea was first advocated in Upper Canada by some one in Cobourg, in the early part of 1834. When the Cobourg bank could not obtain a charter, it was suggested to this gentleman that the people should take the matter into their own hands and establish a bank for themselves, for the special accommodation of the agricultural interests. Loans were to be made on the security of the land, and the paper of the institution was to consist of post-notes payable twelve months after date. Thus would be avoided the necessity of keeping specie on hand out of season.

In the course of the following year this scheme took definite shape; and in April, 1835, we have an account of the institution as it was about to go into operation at Cobourg. It was to be known as the Newcastle District Accommodation Company. The company was to consist of 250 shareholders, each having one share upon which two pounds were to be advanced, making a capital of £500. Though the capital was small, the credit of the partners, the confidence of the public and the notes of the company, payable twelve months after date, were expected to insure success. The company would undertake to furnish the farmers with capital, in the shape of post-notes, with which to cultivate their farms. It might also undertake to dispose of their produce and return them the balance after deducting the amount of the advances made, with interest at six per cent. By a most ingenious automatic process, even the small capital of £500 would not be required in the actual business of the bank. Though the loans were really made for a year, yet they were to be broken up into two loans running six months each. At the end of the first six months the loans were to be returned in the shape of previous issues of the Bank and received again in the shape of new issues having another twelve months to run. By this simple

device none of the paper of the bank would ever have an opportunity of remaining twelve months in circulation, and hence would never come back for redemption. Since the note issues would always just equal the principal of the loans, the interest would require to be paid in specie or the notes of the chartered banks.

It will be seen that among the beauties of this device was the fact that the onus of collecting and returning all the outstanding issues of the bank, before they became redeemable, was entirely thrown upon the customers, and the promoters of the institution escaped the necessity of explaining how it was to be done. The simplicity and efficiency of the scheme so commended itself, we are told, to over five hundred of the best ratepayers of the district that they subscribed to a declaration that, having listened to an exposition of the principles of the new institution, they give it their unqualified approval, and promise to receive its notes in payment for goods, produce, land, or anything they have to sell.

Whether this bank ever went into actual operation I have not been able to discover. The Act of 1837, however, would allow it but a short life. The following year we find an almost identical institution, even to the five hundred freeholders, organized in Kingston, called the Accommodation Bank of Upper Canada. As in the former case, the notes were to be loaned upon the security of real estate to the extent of half its value. The wording of the notes, taken from an unsigned one for four dollars, was as follows: "The Accommodation Bank, Upper Canada, will pay the bearer twenty shillings, twelve months after date, in specie or current bank notes, for value received. Kingston,—18—," with blanks for the signatures of the president and cashier. On one end of the note was printed "Five hundred freeholders pledged to the support of this bank," and on the other end, "Double the amount in real estate pledged for every bill issued from this bank." Such were some of the means by which the latent wealth of the Canadas was to be developed.

The Banque du Peuple having apparently proved that independent banks could be established in Lower Canada, others immediately sought to profit by this important discovery. In April, 1836, a bank in Boucherville had issued notes of the same

nature as those of the Banque du Peuple. The officers of this bank were reported to be a notary public and a couple of inn-keepers.

About the same time the announcement was made that "Several citizens, both rich and respectable proprietors," were about to start a bank at St. Hyacinthe. This bank it appears also went into operation, for its notes were reported to be in circulation.

Even the English element profited by the French discovery, for another bank, known as the Commercial Bank of Montreal, was started by Messrs. J. E. Mills & Co. They seem to have been men of considerable means following the example of Messrs. Viger, Dewitt & Co. When the crisis culminated, and the other banks of Lower Canada suspended, they withdrew their notes from circulation and we hear no more of this bank. In connection with the actual crisis we shall have to refer to several obviously fraudulent banks which were connected with various Canadian points.

One other important and rather unique banking institution doing business in Canada dates from this same crowded period of banking experiment. This is the Bank of British North America.

References have already been made to various schemes for the establishing of banking houses in Canada by British capitalists. Interest in such projects waxed and waned with the changing economic circumstances of the country, never quite dying out nor ever quite issuing in a practical measure, until we come to the Bank of British North America.

In July, 1833, Mr. Dalton, the editor of the *York Patriot*, who had always a very special interest in questions of currency and banking, assured the readers of his journal that some of the greatest capitalists of London, among them the Rothschilds and the Barings, had resolved on establishing a bank in Upper Canada. He was assured that it was the Scotch system of banking that would be introduced. The project is next heard of through Montreal, where, in a letter from London in December of the same year, it is learned that several gentlemen of that city had been contemplating the founding of a bank in Upper Canada, and were still of that mind ; but they were likely to be forestalled

by Messrs. Baring Brothers & Co., who have been for some time actually making arrangements for the purpose. About the same date the *Patriot* once more assured its readers that the Barings and Rothschilds had finally decided to establish a bank in Canada, with a capital of two millions sterling. The Scotch method is still favoured, and the editor, who was an ardent believer in that system, expresses his conviction that within five years of its establishment there will be no other kind of banking in operation on this continent. There was, no doubt, some foundation for these confident assurances. The Barings were largely interested in American exchange and finance, and had desired for some time to obtain a foothold in Canada, which they afterwards secured by undertaking to dispose of Canadian securities in the British market. But, at the time in question, apparently the rising tide of speculation in Britain itself, affording, for the years 1834-35, an insatiable and profitable market for British capital, prevented these projects from coming to any practical issue.

However, the idea was by no means abandoned, and when the speculative fever passed from Britain to America, we hear simultaneously, in the beginning of 1836, of a scheme for a British American colonial bank being developed by some directors of the Irish Provincial Bank, and of a similar project taking shape in London. The plans of the former, known as the Colonial Bank, contemplated an establishment with £600,000 capital in shares of £50 each, £3,000 being reserved for subscription in the colonies, with branches to be opened only where solicited by residents engaged in business. The other was the Bank of British North America, with a capital of £1,000,000 in shares of £50 each, and including shareholders in Great Britain, Ireland and the colonies. Both institutions came into existence, but divided the American colonial field between them. The Colonial Bank confined itself mainly to the West Indies, but with agencies at St. John and Halifax, while the Bank of British North America took in the colonies indicated in its title, including Newfoundland.

Mr. R. M. Martin in his book on the "History Statistics and Geography of Upper and Lower Canada;" claims to have originated the idea of forming a bank in London for the whole of the North American colonies. He says he outlined a plan which he transferred to his friend Wm. Medley, of Lombard street,

whose genius in banking appreciated the idea of identifying the money interests of Canada with Britain, and of taking advantage of the American exchanges through New York. Medley called a meeting at his office, laid the plan before the gentlemen assembled, and the Bank of British North America was the result. In it Mr. Martin professes to see "A better prospect of security for the allegiance of the North American colonies than in any legislative enactment."

In July, 1836, the bank obtained from the Imperial Parliament "An Act to enable the proprietors or shareholders of the company called the Bank of British North America, to sue and be sued in the name of any of the directors, or of the secretary for the time being of the said company." In the meantime preparations were being made in the colonies for introducing branches of the bank. Mr. Robert Carter, one of the directors of the bank, had been appointed a special commissioner from the Court of Directors in London to visit the North American colonies, collect information which might be of service to the directors at home, and explain to the business men of the chief colonial centres the nature and objects of the bank. Thus we find a statement in the Quebec *Gazette* of Aug. 19th, 1836, signed by Mr. Carter, announcing that the provisional committee for conducting the affairs of the Quebec branch of the bank consisted of Jas. Dean, J. M. Fraser, Pierre Pelletier, Geo. Pember-ton and Wm. Phillips. The shares for the district have been allotted, a deposit of £10 sterling has been paid on each, and arrangements are making for the starting of business as soon as possible.

In Kingston a public meeting of merchants and others was held, with Mr. J. Strange, vice-president of the Commercial Bank, in the chair, to consider a proposal to solicit a branch of the bank for that town. Various resolutions were passed setting forth the great possibilities of the province in general and of Kingston in particular, should capital be found to develop them. A committee was appointed to communicate with Mr. Carter with a view to securing a branch of the bank. A favourable response was received, but the Kingston branch was not established until the crisis was safely passed. In the course of the first year branches were opened at Quebec, Montreal,

Toronto, St. John, Halifax and St. Johns, Newfoundland. The provisional committee at Montreal consisted of Wm. Cunningham, Austin Cuvillier, A. Furniss, Robt. Gillespie and Jas. Miller. The first regular board of Directors in Montreal consisted of A. Cuvillier, A. Furniss, J. Ferrier and Wm. Edmondstone, with Chas. Scott as manager. The local directors of the branch in Toronto were Hon. Geo. Crookshank, T. M. Jones, Geo. Monro and Jas. Newbigging, with B. Smith as manager.

Though there had been some opposition to the bank, when first proposed, especially among the moneyed interests of the maritime colonies, yet Mr. Cartier so adroitly managed his campaign that this was soon removed, and he secured, especially in Canada, the sympathy and, to a large extent, the active co-operation of the existing banks in the promotion of the new enterprise. What seemed especially to enlist the interest of the Canadian banks was the prospect of having an institution which, in virtue of its British and American connection, would be able and willing to supply the colonies with specie. The specie, once introduced, was certain before long to be shared by all the banks, an idea which was carefully fostered by the shrewd commissioner.

As explained by Mr. Carter, the new institution was a joint-stock bank, consisting of about six hundred partners in Britain and three hundred in the colonies. The shareholders were subject to unlimited liability. The British partners included most of the merchants interested in the trade of the North American colonies, as well as others engaged in the East and West Indian and other foreign trades, also several London and other bankers and capitalists. The central management was entrusted to fourteen directors in London, while the management of the colonial branches was to be conducted by local boards of directors approved by the central court in London and assisted by a manager of each branch, who will probably be selected from one of the Scotch banks. For the sake of preserving uniformity in the system, a general inspector will superintend all the colonial branches. The capital of the company will consist of £1,000,000, three-fourths of which have been subscribed in Britain, and the remainder is to be distributed among the North American colonies. The directors have power to increase the capital whenever considered

advisable. The profits of all the branches will be put into a common fund, from which uniform dividends will be paid, either in London, or at the chief branches at the current rate of exchange. The stock may be transferred either in the colonies or in London. The special virtues of the institution will be that in addition to the usual services of colonial banks, it will introduce the Scotch system of cash credit accounts. Under this system a party giving security to the bank can draw, up to the limit of his credit, according to the special needs of his business. He will be charged for the sum which he draws only so long as he employs it, and anything he pays in will be placed to his credit, the interest on so much of his loan ceasing. The bank will also allow a small rate of interest upon moneys deposited for a fixed period, thus giving something to people having money lying idle. From another source we learn that interest would be allowed only on deposits of not less than three months standing, and which could not be withdrawn without 75 days notice, interest to cease from the date of notice. According to Mr. Carter, the new bank would be particularly useful in transferring sums from one colony to another. Also the bank, instead of exporting specie, or drawing it from the other banks, will bring specie into the country, and its notes will be held as reserves by the other banks. The comforting expectations raised by this prospect were not very fully realized, as the new bank soon learned to be as careful of its specie as any of its native associates.

Though branches of the bank were opened in Quebec, Montreal and Toronto early in 1837, the crisis which followed arrested their progress at the very outset, and checked the issue of notes.

The Imperial Act for facilitating the operations of the bank being valid only within the United Kingdom, the bank found necessary to apply for special Acts from the various colonial Legislatures, authorizing the company to sue and be sued in the name of the manager or any of the local directors. An Act for this purpose was passed by the Legislature of Upper Canada March 4th, 1837. This Act also specified that the bank should make an annual return of its affairs, of the same nature as that required from the Bank of Upper Canada. No notes under five shillings were to be issued, or any notes not payable on demand.

Should the bank fail at any time to redeem its notes in legal tender on demand, it must cease all banking operations until it resumes payment.

The political disturbances in Lower Canada prevented the bank from obtaining a similar Act there, before the suspension of representative government. But when the Special Council was established in 1838, the bank petitioned for an ordinance similar in tenor to the Act of the Imperial Parliament. It prayed, also, to be exempted from the restriction of 10 and 11 Geo. IV., c. 5., which prohibited the issue of any promissory notes of a lower denomination than five dollars, by any other than the chartered or incorporated banks of the Province. The bank wished to have the privilege of the chartered banks to issue down to the value of five shillings, or one dollar. Further, should any Act or ordinance be passed authorizing the suspension of specie payments by any of the other banks of the Province, it was requested that special provision should be made to include the branches of the Bank of British North America. The ordinance petitioned for was passed by the Special Council in 1838. It authorized the bank to issue notes down to five shillings, though those below one pound sterling were not to exceed one-fifth of the total amount of notes furnished to the respective branches. The usual statement of affairs furnished by the chartered banks was also required.

The Special Council had apparently forgotten the trouble which had been occasioned by including in the charter of the City Bank those clauses in the charter of the Bank of Montreal which appointed the death of a felon, without benefit of Clergy, for embezzlement and counterfeiting. These same clauses were accordingly introduced into the ordinance in favour of the Bank of British North America. When it came before the Lords of the Treasury in England they objected so decidedly to the clauses affecting the criminal law of the country, and authorizing the issue of notes for less than one pound sterling, that they recommended the immediate disallowance of the ordinance. However, Lord Glenelg, having had rather a surfeit of colonial interference, simply recommended to Lord Durham to pass another ordinance repealing the first as far as these objectionable features were concerned, but he left the final decision to his own judgment.

Apparently Lord Durham thought it unnecessary to interfere with an ordinance which was likely to have but a short life, for no new ordinance was passed.

The first annual meeting of the Bank of British North America took place in London early in 1837. The formal report, presented by the secretary, referred to the general objects of the institution, and the excellent field presented by the colonies, where the high rate of interest and the fluctuations of the exchanges afforded an opportunity for the profitable employment of their capital. The link of Empire which the institution represented was not forgotten. Of the 5,000 shares reserved for the colonies 3,427 had been taken up and something paid upon them. Of the 15,000 shares subscribed in Britain, instalments had been paid on all but 1,182. Branches of the bank were in operation in Montreal, Quebec, Toronto and St. Johns, Newfoundland, and arrangements had been made for beginning business in Halifax and St. John, New Brunswick. The profits already derived from the employment of the deposits received by the Bank, had been more than sufficient to pay all the expenses of the company up to the present. Preparations were being made to extend branches to Kingston, Fredericton, Miramichi and Prince Edward Island, which would involve a further call upon the shareholders. After the formal report of the Secretary had been presented, Mr. Carter addressed the shareholders, giving them some of the information which he had acquired, as to the resources and prospects of the various colonies which he had visited. It appears that the chief opposition to the Bank, on the part of those already in the field, was found in Nova Scotia and New Brunswick. In the former colony the banking interests in the Council had been sufficient to defeat the bill in favour of the new bank, which had passed the Assembly. In New Brunswick the Act had failed to pass the third reading in the Assembly, owing to the absence of some of their supporters. It was expected, however, that another session would remedy these defects in both colonies. This forecast turned out to be correct.

We have now to deal with the crisis of 1837-38 and its effects upon the Canadian banks. Except in the case of a few well-informed bankers and merchants, the crisis of 1837 was almost universally looked upon in Canada as something entirely eman-

ating from the United States. Thence it came, like a pestilence, to plague the borders of a long-suffering and innocent people, whose only crime was that an untoward fate had lodged them in the vicinity of an unscrupulous and grasping nation of speculators. The glittering prosperity of their neighbours was a mysterious marvel to the patriotic Canadians, until the American bubble burst, their wealth vanished, their methods were exposed, and their future was ruined, permitting Canada to take its rightful place as the commercial leader of the continent. As a matter of fact, however, alike in legitimate prosperity, in reckless speculation and in consequent crisis and bankruptcy, the lead was taken by Britain.

In the period from 1833 to 1836 Britain enjoyed one of those great epochs of manufacturing and commercial expansion, which confirmed her in the undoubted leadership of the economic progress of the nineteenth century. Towards the close of that period the secondary consequences of prosperity and expansion were very evident. Immense amounts of capital, real and fictitious, were invested in railroad enterprises, in the establishing of numerous joint-stock banks, and in purchasing large quantities of foreign securities, particularly from the United States. To the United States, also, were being sold vast quantities of goods on easy terms, and which were only partially met by imports of raw materials, especially in food and cotton. Under the tropical heat of a British speculative fever, accompanied by fertilizing showers of British goods, British capital, and British emigrants, the great natural resources of the Middle States, from the lakes to the mouth of the Mississippi, vegetated into wealth, real and prospective, with a most surprising luxuriance. To represent and circulate these teeming riches, most of them as yet in the shape of future land values, banks sprang up in every quarter, and, on the basis of a little specie borrowed from the east, which in turn had borrowed it from Britain, vast quantities of paper money were issued, under the conviction that thereby capital was being furnished to the people. Capital was indeed procured in the shape of goods purchased with the paper money. But the parties furnishing the capital did not regard themselves as investors content to receive interest only. They confidently expected that they were selling goods, for which they hoped to be paid, within

a reasonable time, in such medium as would command more goods from abroad. This purpose the paper of local banks would obviously not serve, though it required some considerable time to demonstrate this in practice. The demonstration constituted the crisis as far as America was concerned.

That British goods, British capital, and British emigrants should flow to the United States in preference to British America, has always been something of a mystery to Canadians who have not followed closely the history of North America. We need not marvel, therefore, at the feelings of envy and jealousy which characterized the attitude and coloured the language of our loyal representatives of that day with reference to those enterprising hordes from Britain who, in conjunction with the sons of former British immigrants, were enthusiastically developing the virgin resources of the valley of the Mississippi and its eastern tributaries, and perversely extolling republican institutions. To gloat over the financial collapse of such a people may not have been charitable on the part of high-born Canadians, but it was very human and the provocation was severe.

In Britain the crisis was reached during 1836, and had it not been for the latent specie resources of the country and the action of the Bank of England, which came to the rescue of many of its weaker brethren, it would have been calamitous. Naturally the numerous advances to the United States in credits and capital were immediately called in, while the market for American staples, and especially cotton, was checked. When the merchants and bankers of the eastern States sought to protect themselves by calling upon their debtors further west, they found them in possession of a promising future, but with little more substantial to offer at the time than western mortgages and paper money. A very large amount of specie was actually sent to Britain, but enough could not be obtained to meet all the obligations. The withdrawal of British advances having revealed the real nature of the American situation, the banks began to contract their business in an effort to protect themselves. The only institution which might have come to the rescue, the Bank of the United States, had been greatly weakened and partially discredited in its unsuccessful struggle with the Federal Government. Under the circumstances a crisis was inevitable. In the early

part of 1837 the country was faced by two alternatives; either the people must push one another into general bankruptcy and confusion for lack of specie, or there must be an arresting of liquidation, which was most easily accomplished by a suspension of specie payments on the part of the banks. The latter course was adopted. It was undoubtedly an evil, but, under the circumstances, it was much the least of the evils which threatened the country. It made possible an easy and rapid recovery of business relations throughout the States when the crisis was over and Britain once more extended, though in more modest proportions, her credit and specie. In 1838 the Bank of England itself sent £1,000,000 to the United States to assist the banks in resuming specie payments.

For purposes of specie supply and exchange, the Canadian Provinces were related to the money markets of the East, and particularly that of New York, in much the same manner as the outlying States of the Union. There were, however, two elements of advantage on the Canadian side, in the event of a crisis. In the first place, the large expenditure in Canada on the part of the Imperial Government furnished a supply of specie or its equivalent, exchange on Britain, which was not available in the American States. On the other hand, economic progress and speculative discounting of the future had been on a much humbler scale in Canada, hence the reaction was not so severe. The craving for more banks and paper money, for land speculations and extensive credits, was quite as marked in the case of the Canadians, but hard necessity leaned to the side of virtue. Even as matters stood, Canadian indebtedness to the United States was considerable, giving the Americans a command on Canadian money which meant bank notes in the first instance and their specie in the second.

This brief outline may serve to render more intelligible the action of the Canadian banks during the crisis, and the peculiar convictions of the Canadian people with reference to the part played by the United States in the crisis.

When the first news of the general financial distress in the United States reached Lower Canada, the banks sought to protect themselves as best they could. Discounting was immediately checked, much to the inconvenience of sound business

houses and the complete undoing of the more purely speculative concerns. The policy to be adopted by the New York banks was naturally looked for with the greatest interest. In Upper Canada, owing to the personal views of Governor Head, and in opposition to the wishes of the leading banks and their customers, an independent line was followed for a time, but in Lower Canada the banks followed the American lead very closely.

Professor Dunbar says, in his History of American Banking, "If the utterances of bank conventions, bank commissioners, legislative committees, etc., in the different States are read side by side, they are found to contain almost identical expressions to the effect that the public of 'our' State is to be congratulated on the soundness of the banks in it, while the general suffering is attributed to the folly and errors of neighbours; that our banks have plenty of specie for themselves, but they cannot be expected to provide all their neighbours with specie; that it is impossible for any to maintain specie payments unless all do." This very accurately expresses the attitude of the Canadian Provinces, alike towards their British brothers and their American cousins.

The New York banks suspended on May 10th, and immediately after the news was received in Montreal, a public meeting was called for May 16th, to take into consideration, "the present alarming condition of the money market, and to adopt measures to prevent the withdrawal of specie from the vaults of our banks and its exportation to a foreign country." The Hon. Geo. Mosfiatt was in the chair and briefly explained the nature of the situation. He pointed out that, owing to the very close connection between Montreal and the American business centres, any calamity which overtook the latter must be reflected in Montreal. The New York banks having suspended specie payments, the Canadian banks must do likewise. He was firmly convinced that the banks in Montreal were quite able to redeem their notes, but to do so would mean a severe contraction and possible cessation of their accommodations to the merchants, which would prove ruinous to every interest in the country.

Some correspondence between a committee of the Board of Trade and the three banks in the city was then read. The general tenor of this was that the Bank of Montreal signified its willingness to co-operate with the other banks in a movement

to "suspend specie payments under the conviction that the general interest of the public requires such a course, as the only alternative to prevent the immediate and rapid drain of specie for exportation." The City Bank agreed to follow this lead, and the directors of the Banque du Peuple, while declaring their institution capable of meeting all its engagements, yet will not stand out against the public interest, but will be happy to accede to the wishes of the public at large. The meeting then passed unanimously a series of resolutions in which they deplored the circumstances which had led to such disastrous results in the United States. Though they fortunately had none of those evils in Canada, yet, owing to their relations with the United States, their interests must suffer unless they protect themselves. Moreover, they have positive information that individuals are now hastening from New York and elsewhere to this Province for the purpose of withdrawing specie from the vaults of the banks and no time is to be lost in frustrating their designs. The only measure that will give adequate protection is the suspension of specie payments by the banks. They have the utmost confidence in the solvency and stability of their own banks to redeem their notes, but this can be done only at the expense of the merchants. Under these circumstances the meeting recommends the banks of the Province, and especially of the city of Montreal, to suspend specie payments and exercise forbearance to one another and the merchants generally.

The Quebec merchants adopted the same course and passed similar resolutions. The banks accepted the advice tendered them by their friends, claiming to be acting in the public interest and therefore asking for the confidence and support of the public.

The three Montreal banks undertook to receive each others notes in payment and on deposit, as before the suspension.

The action of the banks was very favourably received among the merchants, but, inasmuch as there had been considerable over-trading and inflation, it was impossible that the banks should be able to sustain the business of the country at anything like its former level by means of their customary discounts while they declined to redeem their paper in specie. The notes of the banks fell considerably in value, even Bank of Montreal notes being at a discount of ten per cent. within a month after

suspension. Nevertheless, to have adopted any other course would undoubtedly have led to widespread bankruptcy.

At the same time there was little sound judgment behind the common cry that had the banks maintained specie payments they would have been ruined by outsiders drawing off their specie by illegitimate methods. This cry had already been raised by the banks in Upper Canada against one another, and now against both the United States and Lower Canadian banks, but especially the latter. What it meant was simply that those having legitimate claims against the merchants and banks in the Canadas, would be likely to press them when they were in special need of specie. But had exchange been available there would have been no foreign demand for specie, a fact recognized at the time by a few who really understood the situation. Yet it was just here that the whole difficulty lay, alike between Canada and the United States, between the Western and Eastern States, and between the Eastern States and Britain.

By suspending specie payments they left themselves with a circulating medium for domestic purposes, and put a check upon the export of specie measured by the premium on foreign exchange. At the same time this policy permitted what specie there was to be used almost exclusively in international trade, much to the profit of the banks. The suspension made possible a gradual instead of a sudden contraction in the volume of credit. Yet, having once suspended, the banks were subject to a strong inducement both from immediate self-interest and from the importunity of borrowers to keep their discounts in a more inflated condition than the reduced state of legitimate business required.

Within a week after the suspension, specie was at a premium of six per cent. on dollars and three per cent. on French crowns. The premium on exchange to Britain steadily rose in sympathy with the rate at New York. There it reached the highest point, twenty-one per cent., in the beginning of September, while in Montreal it ranged from 1 to 2 per cent. higher. It has to be remembered that at this time the actual value of the sovereign in American dollars was \$4.86, which, however, in the language of exchange, represented a premium of  $9\frac{1}{2}$  per cent. Exchange quoted at  $9\frac{1}{2}$  per cent. premium was therefore really at par.

In addition to the difficulties connected with foreign exchange was that involved in the payment of Customs dues and other obligations to the Government, which had previously been received in bank notes. The Committee of Trade presented a memorial to the Governor-in-Chief, setting forth the impossibility of obtaining specie for the payment of duties, etc., and praying that bank notes or other paper might be received instead. In reply the Governor agreed to sanction payment in bank notes, provided the banks would conform to certain conditions. The collectors of customs might take from those making entry, security for the payment of duties in specie on or before the 20th of September next, but, in addition, each party should furnish a receipt from the Montreal or Quebec Bank, to the effect that he has the necessary amount on deposit there, and which sum will be payable to the Crown in specie on or before the 20th of September next. Further, the banks must undertake that the balance of specie now returned as being in their vaults will not be diminished to any considerable extent in the interval. But should the balance of specie increase to any extent, the Government may demand payment as it sees fit.

The bank, however, promptly declined to fulfill these conditions, and the merchants were compelled to obtain their specie by paying the market premium for it.

On the whole, during the crisis, and apart from the political disturbances which accompanied it, the business of Lower Canada cannot be said to have suffered more severely than was inevitable through the subsidence of an inflated and speculative trade. The suspended bank notes were freely accepted in all domestic exchanges, yet the banks did not take advantage of suspension to push their notes unduly. Though the merchants had to make certain sacrifices to obtain foreign exchange, or pay customs dues, yet these they were able to share with the public. Neither the merchants nor the public, however, were required to make a tithe of the sacrifices that would have been forced upon them had business been paralyzed by a sudden and severe contraction in the circulating medium, such as threatened Upper Canada.

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